THE NATIONAL CITY BANK OF NEW YORK

1930

Economic Conditions
Governmental Finance
United States Securities

New York, March, 1930.

General Business Conditions

THE downward trend of commodity prices since January 1 unquestionably has proven to be a greater factor in the trade situation than previously had been anticipated. In view of the fact that there had been so little speculation in commodities since 1920, and that commodity prices in the United States have been but slightly above corresponding prices in Europe, this situation had not been regarded with concern, although a degree of weakness is expected in all markets at a time of general business recession. The most sensational declines have occurred in foreign markets as well as here and affected sentiment in other countries as much as here. Wheat, wool, cotton, sugar, and other commodities which have lost value seriously are of even more relative importance in other countries than in the United States, but this country has a general interest in the maintenance of world trade. So far as immediate effects are concerned, it is to be considered that last year's crops of grain and cotton already have passed for the most part out of farmers' hands, but in industry and trade the decline of raw materials throws everything into confusion. Purchases of both raw materials and goods are reduced to the closest possible hand-to-mouth system, notably in the textiles, but also in other lines.

Steel Leading

The outstanding feature of the business situation on the constructive side, is the strength and activity of the steel industry, which is still turning in a highly creditable performance, with operations at the close of February at approximately 80 per cent of capacity. Not only are the mills working at relatively high levels, but in the last month the tendency to lower prices has been withstood and prices maintained at the lower levels previously reached. The situation is particularly strong in the Chicago district, where mills have been running at 95 per cent of capacity and advances in steel scrap prices have indicated prospects for continued activity.

The railroads have been a leading factor in this steel situation. Rail orders and general maintenance are about as usual, but the program of improvements is larger than usual and equipment orders are heavy. The railway equipment industry is fixed for good business during the first six months of this year at least. The farm implement industry, another good steel customer, is looking for an active year, despite the present low prices of farm products. Sales billed by 61 implement companies in January were 30 per cent above the corresponding figures for 1929. Inasmuch as practically a new line of agricultural machinery has been developed since 1920 this growth of sales is significant of the rapid adoption of new and more efficient farming methods.

Structural steel orders are maintaining a good volume, which is significant of engineering construction. The extensive expansion program of natural gas companies also is reflected in orders for steel pipe. The heavy machinery industries are doing well and the electrical equipment industry is benefitting from the expansion of the public utilities and the trend of industry generally towards electrical power with its lower costs. Orders of the General Electric Company and the Westinghouse Electric and Manufacturing Company are understood to be running substantially ahead of a year ago at this time.

The steel industry is manifesting plenty of confidence in its own future, and doing its full share for the maintenance of industrial activity by adopting the largest program of expansion planned since the war. The aggregate expenditures involved is in the neighborhood of $500,000,000. Following is a record of the plans as reported in the press for the principal companies since last Fall:

United States Steel Corporation program of expansion calls for the expenditure of approximately $360,000,000 over the next three years. Of this sum, $250,000,000 will be spent in the Chicago district to increase the capacity of the Illinois Steel Co. The American Steel and Wire Company will build a new open-hearth steel plant at a cost of $10,000,000 at its Newburgh works in Cleveland, and will spend $5,000,000 at its works at Donora, Pa. The Carnegie Steel Company plans an expenditure of $3,000,000 at its McDonald works at Youngstown, O. Enlargements of Tennessee Coal and Iron Company in Alabama $25,000,000.

The new National Steel Corporation plans an improvement program involving the expenditure of between $72,000,000 and $82,000,000. Plans call for the immediate expenditure of $25,000,000 for the new plant of the Great Lakes Steel Corp. at Detroit, and $7,000,000, for additions to the operations in the vicinity of Weirton, W. Va. All this work will be completed by the end of this year. Within the next three years the company will enter the Chicago district with a plant to be located at Gary, Ind., to cost between $40,000,000 and $50,000,000.

The Bethlehem Steel Corporation is to spend $50,000,000 to increase capacity at its plant at Buffalo, N. Y., and at Sparrows Point, Maryland.

The Youngstown Sheet & Tube Co. has announced that it will begin work immediately on a new mill to be located at the company's Brier Hill works at Youngstown, the cost of the mill being estimated at $10,000,000.

The Newton Steel Co., which has a new development between Detroit and Toledo announces intention to spend $60,000,000 on plant construction during the next nine years and has an important amount of work already in hand.

The Automobile Industry

The increased production of automobiles in January over December was an important factor in the rise of steel production. For the month of January the total output of cars and trucks amounted to 273,089 units, representing a considerable increase over the December total of 120,004 units, which was the smallest for any month since 1922. January production, while well up from December, was still 32 per cent under January of last year. Insofar as retail sales figures are at all significant at this time of year, they indicate a good showing for the light cars, such as Ford and Chevrolet, but a poorer one for cars of $1,000 and up. It is still too early to tell much about the probable course of the business during the year. The outlook for foreign sales is not good, on account of the serious loss of purchasing power of many countries by reason of the low prices of their products, and unless general business conditions show a more pronounced recovery home sales will undergo a considerable reduction from last year.

The Building Industry

The most serious feature of the general situation is the falling off in building operations. The industry is of the first importance in every period of uncertainty, not only because of its direct employment of labor, but because of its consumption of the products of so many other industries, and furthermore because it is known to be subject to wide fluctuations. The information about building operations to this time is not encouraging. Taking January as the latest month for which complete figures are available at this writing, the permits issued in 566 cities totaled only $128,000,000 compared with $234,000,000 in January, 1929, representing a decline of 46 per cent. The total was also 17 per cent under that of December.

Nor are the figures much more favorable if the comparison is made on the basis of contracts awarded. These totaled $323,000,000 in January this year, compared with $410,000,000 in January a year ago, a decrease of 21 per cent. For the first two weeks of February the average daily contract lettings amounted to $10,774,000, compared with $14,726,000 in January of this year, and $16,421,000 in February a year ago.

It thus appears that building operations are continuing at very low ebb. To what extent a pick-up will occur in the Spring remains to be seen, but some seasonal increase, of course, is certain. One unfavorable factor is the continued scarcity of mortgage money. Despite the marked reduction of stock market credit requirements and lowering of rates on collateral loans in the larger financial centers, money generally is not easy through the country, and this applies particularly to the mortgage field. Savings banks, which are large lenders on mortgages, are not yet back in the market to any great extent, notwithstanding that savings deposits have begun to pick up again after the general decline of last year. As deposits increase, however, the first move of the banks is to replace high grade bonds which they were forced to sell in order to meet the deposit withdrawals sustained last Fall. Similarly, building and loan associations have not yet recovered from the effects of the stock market break, and insurance companies not only have outstanding a considerable volume of policy loans for purposes of carrying securities, but already have been called upon for more than their share of assistance to the mortgage market, due to the drying up of funds from other sources during the past year.

All of this is a part of the cost of the heavy diversion of funds to the stock market last year. The resulting derangements are in process of correction, but until funds are free again the resumption of building operations is bound to be handicapped. Particularly is this true of residential building which is most dependent on the mortgage market. Insofar as public building of roads and structures is concerned, the outlook is already definitely improved by the opening up of the market for municipal bonds, and it is certain that a large amount of such work will be done. Industrial building, also is going forward in some notable instances where far-sighted concerns which have surplus funds see in the present lull a good opportunity to carry forward programs of expansion to take care of the enlarged volume of business expected when business once more resumes its normal stride.

Counting public building, such industrial building as instanced above, and the expansion certain to go forward in the public utilities, the construction industry seems to have a fair backlog of business, but with residential construction in a normal year comprising about 40 per cent of the total building budget it is evident that real pros-

perity in the industry must await the revival of building of that class. Few localities report a shortage of office or residential space, but it must be remembered that a large part of the building that goes on in this country is in the replacement of obsolete structures rather than addition of actual new facilities. The fact that building has been sub-normal for over a year has helped to correct conditions of over-supply and place the industry in a position to benefit from the cheapening of money. In the past easing money rates have always led to a revival of building and this has inspired confidence that it will do so again. Despite the year's slow start building authorities are not yet prepared to revise their estimates of a final building total for the year equal to, if not somewhat in excess of, that for last year.

Indexes of General Business

Thus far it must be said that the recovery of business has been irregular. Practically all indexes of production and trade are running much below a year ago and slightly below the early months of 1928, when much apprehension was felt as to the trend. Following is a table showing the Federal Reserve Board's index of production (after allowance for seasonal variation) for January of this year as compared with previous years:

1923-1925 average = 100

January	
1923	100
1924	100
1925	106
1926	107
1927	107
1928	105
1929	117
1930	103

It will be seen that the index for January 1930 was far below that of January 1929 and in fact the lowest for the month since 1924. At the same time it is only fair to observe that production in January of last year was abnormally great, and that the comparisons with previous years are not so unfavorable. Of course, business in this country should normally grow from year to year and this fact must be taken into consideration in studying the figures. Hence it is of interest to note that the index of the Standard Statistics Company, which endeavors to allow for both seasonal fluctuations and annual growth, stood in January at 97.2 per cent of computed normal, which is not a bad showing even though considerably below the high levels of last year.

Similarly the familiar indexes,—industrial consumption of electric power, railway carloadings, and factory employment,—all plainly reflect a reduced volume of general business activity. Industrial consumption of electric power, according to the index of the Electrical World, increased 4.6 per cent during January as compared with December, but was 8.1 per cent less than in January a year ago, although 3 per cent over January two years ago.

In the movement of railway freight, there has been a seasonal pick-up since the first of the year, but the month of January was 6 per cent under that of the previous January, and the first two weeks of February were 7 per cent under last year's level.

Unemployment

Reports indicate large numbers of unemployed in all industrial centers, but there are no regularly collected statistics on the number of men and women out of work. The only comprehensive information available relates to the numbers actually employed by a selected list of industries which report their figures regularly to the Department of Commerce. According to these reports, based on establishments employing in active months approximately 5,300,000 workers, industrial employment in the United States dropped 2.6 per cent between the middle of December and the middle of January, and at the latter date was 10 per cent under the peak levels of last Fall, a loss for the reporting industries alone involving something like half a million workers. The following table is of interest as showing the changes in employment conditions in the manufacturing group between December and January and January a year ago, by industries. In this table aggregate payrolls, instead of number of workers, are used, inasmuch as the former reflect part-time employment as well as lay-offs:

PAYROLLS IN MANUFACTURING INDUSTRIES
(Monthly Average of 1926 = 100)

	Jan. 1930	Dec. 1929	Jan. 1929
General Index	87.6	92.0	94.5
Food and products	99.9	102.8	99.6
Textiles and products	88.4	90.7	96.3
Iron and steel and products	88.2	92.7	95.5
Lumber and products	71.5	81.8	81.9
Leather and products	83.5	81.4	87.1
Paper and printing	106.3	109.4	108.2
Chemicals and products	99.1	103.0	95.1
Stone, clay and glass products	66.1	78.7	77.5
Metal pdcts., except iron & steel	81.4	87.4	102.4
Brass, bronze & copper products	86.4	91.1	109.3
Tobacco products	81.7	94.0	81.0
Automobiles	73.0	70.9	111.4
Car building and repairing, steam-R.R.	86.1	97.0	79.6
Agricultural implements	110.9	119.3	124.1
Elec. mach., apparatus & supp.	118.3	133.3	103.8
Rubber boots and shoes	95.8	104.9	96.1
Automobile tires	77.6	79.9	103.4
Shipbuilding	120.9	120.8	93.6

General Outlook

Summarizing general conditions, it is apparent that business has had an encouraging recovery from the low point, but the situation still lacks balance, and it is not yet clear as to how soon full recovery may be expected. Much will depend upon the course of the automobile and building industries. The trying character of the ordeal which business has passed through would naturally argue for a conserva-

tive view of recovery, but business may surprise the pessimists. Undoubtedly the fall in commodity prices has caused uneasiness, but with a few possible exceptions it is probable that the worst of that movement has been seen.

The very severity of decline in business is in itself an argument for believing that the low point has been passed. Unless business men push the recovery too fast there seems no reason why the betterment should not continue, though the gain may be slow during the first half of the year. One of the most reassuring features of the situation is the persistent strength of the stock market. The fact that the market has held up so firmly in the face of much adverse news is indicative of a general feeling of confidence in the sound progress of recovery. The trend of exchange rates has indicated that a considerable amount of buying has been for foreign account.

Business Profits

The large number of annual stockholders' reports that have been issued during the past month show that, despite the sharp curtailment in activity in the fourth quarter, the year 1929 as a whole established a new high record in earnings and closed with industry in a strong balance sheet position.

A tabulation has been prepared of more than fifteen hundred statements, classified according to major industries, and is summarized on the following page, which gives for each industrial group the combined earnings of companies that have published their reports to date. Figures represent net profits available for dividends or to carry to surplus account, i. e., after all expenses, reserves for depreciation and depletion, interest charges and provision for taxes have been deducted. More than 90 per cent of the reports are for the year ended December 31, 1929, the remainder being for companies whose fiscal years closed at various other dates in the last half of the 1929 calendar year, or in the early part of 1930.

For the 1509 companies representing a wide variety of manufacturing and merchandising lines and also public utilities and finance, the grand total of net profits in 1929 amounted to $6,590,000,000. In 1928 the same identical companies reported combined profits of $5,806.-000,000, while the 1927 total was $4,731,000,000. Profits in 1929 increased over those in 1928 by $784,000,000 or 13 per cent and exceeded those of 1927, a year of moderate recession, by $1,859,000,000 or 39 per cent. Profits last year not only added a further gain to the strong upward movement that has been witnessed during the past decade, but apparently topped even the wartime years 1916 and 1917 and the boom year 1919, when business activity was abnormally stimulated and the price level highly inflated.

For the year as a whole, it is believed that the classified tabulation gives in very compact form a cross-section of American business that discloses the high lights and the depressions, as well as the lines that are marked by stability and steady growth. It is by no means complete, for the reason that it does not include the small corporations which do not issue statements or the enterprises conducted by partnerships and individuals, whose earnings in general tend to run below those of the large corporate organizations. In many industries, however, a limited number of large corporations account for a very substantial portion of the total volume. Of the 1036 manufacturing and trading corporations in our analysis, 405 had net profits last year in excess of $1,000,000 and 83 made more than $10,000,000.

Classification has necessarily been limited to broad industrial groups, and numerous companies will be found whose earnings run counter to those of their group and unduly influence the combined total. Certain industries that are in a depressed state, such as cotton goods, coal mining and sugar production, show a combination of negligible profits and losses, the net changes in which are not so important as might appear when expressed on a percentage basis. In the various industrial groups there were 67 corporations that reported deficits last year amounting to $27,860,000 in the aggregate, which have been deducted in arriving at the net profit for each group. Wherever mergers have occurred, the earnings in prior years of the companies absorbed have, if possible, been taken into account so as to make the figures comparable, but in some instances these are not obtainable.

Iron and Steel

In considering profits in particular lines of industry as summarized in the table, space does not permit extended comment and the figures speak for themselves. A few points are outstanding, however, with the gain in iron and steel company earnings perhaps the most striking of all. Forty-three companies in this line increased their combined profits from $224,000,000 in 1928 to $373,000,000 in 1929, making a gain of $149,000,000 or 66 per cent. Production of steel set a new record of 55,000,000 tons, although profits were not so high as in the war years.

Non-ferrous metals enjoyed a heavy demand last year and profits showed a substantial increase over the previous year, particularly for the producers of copper, whose price has held at 18 cents per pound since April, 1929, despite the decline in lead and zinc prices.

Automobiles and Accessories

Earnings of twenty-three companies manufacturing automobiles were 7 per cent below

ANNUAL EARNINGS OF AMERICAN CORPORATIONS

Net Profits—000's Omitted

No.	Industry	1927	Fiscal Years 1928	1929	Per Cent Change 1928-29	1927-29
9	Agricultural Implements	$ 38,679	$ 49,450	$ 63,230	+27.9	+ 63.5
18	Amusements	30,365	38,135	68,914	+80.7	+ 127.0
24	Apparel	21,650	20,450	21,114	+ 3.2	— 2.5
23	Automobiles	316,763	395,005	365,283	— 7.5	+ 15.3
51	Auto Accessories	41,007	63,090	62,811	— 0.4	+ 53.2
6	Aviation	963	6,667	10,790	+62.0	+1,021.0
16	Bakery	43,973	46,251	52,585	+13.6	+ 19.7
31	Building Materials (d)	38,428	32,729	34,758	+ 6.0	— 9.6
22	Chemicals	132,204	172,197	198,056	+15.0	+ 49.7
11	Coal Mining	9,271	8,081	9,587	+18.6	+ 3.4
14	Confectionery and Beverage	38,862	38,421	45,142	+17.5	+ 33.2
39	Cotton Mills	17,795	9,563	10,198	+ 6.6	— 42.7
11	Dairy Products	20,455	31,023	46,629	+50.3	+ 128.0
18	Drugs and Sundries	45,693	55,595	70,736	+27.2	+ 54.8
36	Electrical Equipment	104,154	133,308	155,673	+16.8	+ 49.5
6	Fertilizer	1,552	11,606	7,177	—38.2	+ 362.4
9	Flour Milling	8,409	8,085	10,125	+25.2	+ 20.4
25	Food Products—Miscellaneous	86,183	102,189	107,643	+ 5.3	+ 24.9
19	Heating and Plumbing	35,847	38,391	45,379	+18.2	+ 26.6
4	Hotels	929	887	1,040	+17.2	+ 11.9
33	Household Supplies	74,144	81,296	86,282	+ 6.1	+ 16.4
43	Iron and Steel	169,952	224,392	373,470	+66.4	+ 119.7
8	Leather Tanning	3,004	1,384	D-2,456	— —	———
23	Lumber and Furniture	8,616	8,535	9,516	+11.5	+ 10.4
61	Machinery, etc.	41,740	48,754	64,373	+32.0	+ 54.2
20	Meat Packing	20,835	39,206	36,206	— 7.7	+ 73.8
35	Mdse.—Chain Stores	104,276	120,864	132,615	+ 9.7	+ 27.2
12	Mdse.—Dept. Stores	25,324	23,510	22,079	— 6.1	— 12.8
5	Mdse.—Mail Order	35,757	49,075	45,067	— 8.2	+ 26.0
8	Mdse.—Wholesale	9,212	6,626	5,979	— 9.8	— 35.1
18	Metal Mfg.—Misc.	8,759	12,714	17,414	+37.0	+ 98.8
16	Mining—Copper	72,832	153,074	226,340	+47.9	+ 210.8
14	Mining—Other Non-Ferrous	55,589	71,341	94,128	+31.9	+ 69.3
9	Office Equipment	15,253	17,394	22,326	+28.4	+ 46.4
11	Paint and Varnish	12,104	15,896	18,441	+16.0	+ 52.4
39	Paper and Products	13,188	14,548	17,155	+17.9	+ 30.1
44	Petroleum	249,945	529,872	615,926	+16.2	+ 146.4
9	Pipe Lines	21,378	21,200	25,420	+19.9	+ 18.9
18	Printing and Publishing	27,095	30,310	33,444	+10.3	+ 23.4
16	Railway Equipment	41,870	33,990	49,021	+44.2	+ 17.1
2	Rayon	2,953	2,456	3,023	+23.1	+ 2.4
10	Real Estate	11,525	9,530	10,014	+ 5.1	— 13.1
9	Restaurant Chains	5,868	5,562	7,331	+31.8	+ 24.9
16	Rubber Tires, etc.	47,761	24,241	36,953	+52.4	— 22.6
15	Shipping, etc.	12,132	10,232	16,318	+59.5	+ 34.5
10	Shoes	28,550	25,557	26,739	+ 4.6	— 6.3
16	Silk and Hosiery	8,448	8,589	9,294	+ 8.2	+ 10.0
5	Stock Yards	1,992	1,989	2,161	+ 8.6	+ 8.5
18	Sugar—Cuban	5,053	D-2,897	D-3,195	— —	———
12	Sugar—Other	12,250	14,127	6,601	—53.3	— 46.1
16	Textile Products—Misc.	13,289	16,672	18,053	+ 8.3	+ 35.8
24	Tobacco	100,411	104,548	116,688	+11.6	+ 16.2
2	Wool	D-43	D-96	D-792	— —	———
62	Miscellaneous	80,584	95,965	112,983	+17.7	+ 40.2
1,036	Mfg. and Trading	2,369,583	3,082,619	3,641,798	+18.1	+ 53.7
180	Railroads (a)	1,085,142	1,194,488	1,274,774	+ 6.7	+ 17.5
98	Telephone (a)	232,473	347,236	P-372,000	+ 7.1	+ 60.0
95	Other Utilities (a)	775,177	868,703	P-1,009,000	+16.2	+ 30.2
60	Banks (b)	P-147,342	P-176,260	P-217,358	+23.3	+ 47.5
40	Insurance (c)	122,052	136,329	75,950	—44.5	— 37.8
1,500	Grand Total	$4,731,769	$5,806,135	$6,590,875	+13.5	+ 39.3

D—Deficit.
P—Preliminary.
(a) Net operating incomes.
(b) New York City banks and trust companies. Calculated profits include dividends paid by, but not undistributed earnings of security affiliates.
(c) Fire and casualty insurance companies. Figures represent stockholders' gains, including underwriting earnings and investment profits and appreciation.
(d) Includes building specialties.

the preceding year but 15 per cent above 1927. Thirteen companies had higher earnings in 1929 than in 1928, while ten were lower. Ford Motor Company is not included, as it has not yet issued its annual balance sheet from which the change in surplus account can be calculated.

Suppliers of automotive parts and accessories fared somewhat better than the makers of complete vehicles, and profits of fifty-one companies showed little change. Tire companies did moderately better than in 1928, when they had to absorb heavy losses caused by the break in crude rubber prices, but their profits were still below the year 1927. Some of the aircraft and engine manufacturers increased their earnings last year, but the manufacturing branch of aviation has not proven so profitable as has the transport.

Machinery and Tools

Machinery and tool builders increased their profits last year almost without exception, the gain for sixty-one companies being no less than 32 per cent. Electrical machinery and apparatus had a gain of 16 per cent, and General Electric Company, the largest organization in this group, increased its net profits from $54,154,000 in 1928 to an estimated $67,000,000 last year.

Earnings of agricultural implement manufacturers continued their upward trend last year even though increase in sales did not fulfill earlier expectations. Railway car and locomotive plants were given the largest volume of orders since last October that they have had in several years, only part of which is reflected in the 44 per cent gain in earnings for 1929.

Building Materials

Classification of concerns supplying building materials is difficult because of the diversity of products that are used in new construction. Taking the basic materials such as cement, stone, gravel, brick, tile, and glass, together with numerous "building specialties" such as roofing, asbestos, etc., the reports of twenty-six companies showed combined earnings in 1929 equal to 1928 but below 1927, and the showing would be less favorable were it not for the fact that increased earnings of a few specialty companies tend to offset the decreased earnings of producers of basic materials such as cement and brick.

Other lines of business related to building but separately classified include lumber and furniture, which are getting along only fairly well; heating and plumbing fixtures, which is stable but does not grow very rapidly; paint and varnish, which improved its earnings partly as a result of large demands from the motor industry. A limited number of reports from companies owning and operating real estate show no definite trend.

Food Products

Steady demand for food products and rapid turnover of inventories give this line a stability such as few industries enjoy. Fifty companies making dairy products, confectionery, beverages and miscellaneous food products have made almost uniformly good progress.

The same is true of baking. Meat packers suffered last year from the decline in hog prices, and the four leading packers made an average net profit margin of only one cent on each dollar of sales. Reports of sugar producers reflect the continued depressed conditions in the industry. Of eighteen representative companies having properties in Cuba, the majority reported deficits last year, and for the group there was a net defict of $3,195,000 on a combined capital and surplus at the beginning of the year of $310,000,000, while companies operating in Porto Rico (duty free) were adversely affected by the hurricane and made a return of only 2.4 per cent on their investment.

Tobacco companies generally had a good year, with the best showing in the popular brand cigarettes and the poorest in cigars and smoking mixtures, while in the retail distribution of tobacco products conditions are chaotic due to price-cutting.

Textiles and Apparel

Declining commodity prices during the past several months coupled with the stock market break have severely restricted purchasing of the four major textiles and intensified the tendency toward overproduction. Apparel sales to the public have not been affected so seriously as the movement of the raw and semi-finished materials, but extremely keen competition keeps selling costs high. Makers of miscellaneous textile products such as carpets, upholstery, etc., have done only fairly well despite the record year of the automobile industry, which is a large consumer.

Merchandising Organizations

In the field of merchandising there appears to be an irresistible movement toward larger and more completely rounded organizations that will be made up of groups of department stores and chains of smaller stores, do a mail order business and possibly wholesale also, and manufacture of a portion of their own merchandise.

Because of the expense incident to this constant evolution in the merchandising organization, and the fact that some localities are becoming over-crowded, it is not surprising that the past year failed to show the usual growth in earnings for the group as a whole.

Miscellaneous Industries

Concerns in the motion picture, theatre and other amusement lines have had rapidly growing earnings but also largely augmented demands for capital to finance the development of talking pictures and consolidations. Producers of chemicals may not find such a good market this year as last but their product is so diversified that there will doubtless be numerous exceptions. Drugs and sundries evidence a quite consistent growth from one year to another.

Manufacturers of household equipment and supplies such as refrigerators, vacuum cleaners, etc., are continually broadening their market, but competition is keen and tempts the more liberal use of installment credit. The office and business equipment industry has just completed a banner year and considers that the present slower pace of general business is an argument for installing improved systems. Conditions in the paper and pulp industry have been somewhat unsatisfactory due to the rapid expansion of paper mill and power plant installations, but some of the companies making paper and cardboard products have done very well.

Coal mining earnings in 1929 were somewhat better than in 1928 but are still subnormal. Petroleum production and refining is laboring under the burden of excessive stocks, but the fact that combined earnings of forty-four companies last year totaled $615,000,000, which was $86,000,000 ahead of 1928 and more than double that of 1927, gives reassurance that the oil industry is meeting its problems with a fair degree of success.

Public Utilities

A consolidated statement covering the operation of all Class I railroads in the United States has just been issued and shows that although 3 per cent more traffic was handled than in the preceding year, operating expenses were allowed to increase by only 1.6 per cent, resulting in an increase of net operating income of 6.7 per cent. This brought the rate of return on property investment up to 4.95 per cent as compared with 4.72 in 1928 and with 5.75 per cent which the roads are to be permitted to earn under the Transportation Act. No less than thirteen Class I roads operated at an actual loss last year.

Public utility earnings, based on reports of the ninety-five important systems supplying electric light, heat, power, tractions, gas and water service in the United States, increased over the preceding year by 3.4 per cent in gross and by 16.2 per cent in net, which was at a slightly higher rate of increase than the average over previous years.

Financial Companies

In an effort to include some data regarding financial companies in this study of business profits, an analysis of sixty New York City banks was prepared. In the years 1927 to 1929 these institutions absorbed by merger 52 other banks, whose earnings in prior years were taken into account. Keeping in mind the possible inaccuracy in calculating bank earnings from a comparison of statements and dividends, without a complete profit and loss exhibit, the fact that earnings of the security affiliates can be known only as they are paid out in dividends, and the question as to how representative a sample this group of New York City banks constitutes of the banks throughout the country, the increase of 23 per cent in 1929 is no larger than would be expected to result from the expanded loan portfolios and high interest rates that prevailed.

In the case of insurance companies, most of the life companies are mutual and do not make profits in the ordinary sense, but a tabulation was prepared of forty representative stock companies in the fire and casualty fields. These companies are heavy investors in common stocks, and in analyzing their operations the investments are figured at market value and a calculation made of "stockholders' gains" from underwriting and investment profits combined. In 1928 the group showed stockholders' gains of $136,829,000 and in 1929 only $75,950,000, which, however, does not mean that actually realized profit from underwriting and investments was so much lower in 1929, but only that in 1928 there was a large writing up of security holdings to market value. Except for this, the results in the two years would be about the same.

Investment trusts have come to occupy an important place in the financial structure but are not included in the composite table for the reason that very few trusts have a three years' earning record. Over half of those now in existence were established in 1928 and 1929. Following is a summary taken from a recent comprehensive survey of investment trusts, showing their capital funds (bonded debt, preferred stock, common stock and surplus) as given in statements of December 31, 1929, classified as to the year of organization:

CAPITAL FUNDS OF INVESTMENT TRUSTS
December 31, 1929, statements

Year	Number Organized	Capital Funds 000's omitted
Prior to 1922	18	$ 253,477
1922	3	202,062
1923	4	256,351
1924	20	246,493
1925	26	146,114
1926	25	218,867
1927	94	365,280
1928	121	785,296
1929	173	3,021,438
Total	484	$5,503,477

Published reports of most investment trusts do not contain sufficient information to reveal the full story of their operations last year. Twenty-seven reports that are fairly complete show that net earnings, including interest and dividends received and profits realized, after expenses but before interest charges and taxes, averaged 8.3 per cent on total capital funds, which are represented by preferred and common stock, surplus and funded debt. Market value of the investment portfolios of the same identical trusts, however, had declined on statement date to 89 per cent of book value, on the average. Due to the lack of uniform and complete accountants' reports, as well as to frequent changes in capitalization through issuance of additional shares or repurchase of shares for retirement, it is difficult to establish any operating standards that are very satisfactory for investment trusts as a whole, but this will come in time.

Fourth Quarter Results

In order to measure the extent of the slump in earnings during the final quarter of 1929 a separate tabulation was made of those companies that issued fourth quarter as well as annual reports, or that permitted the figures to be calculated from their published reports covering the first nine months of the year. For 100 representative industrial and merchandising companies for which comparable reports are available, the fourth quarter profits decreased from $200,663,000 in 1928 to $187,167,000 in 1929, or by 6.7 per cent.

Gains and losses were about evenly divided in number. Without the steel group, however, led by United States Steel Corporation, which increased its fourth quarter profits from $30,740,000 to $39,972,000, the combined earnings of the remaining companies showed a decrease of 17.6 per cent. A drop of this extent is no more severe than had been expected in view of the sharp curtailment in business activity in the final quarter of the year, but it nevertheless stands in striking contrast to the substantial increase achieved in the first three quarters of the year, which according to our tabulation amounted to 26 per cent for all industrial companies reporting.

Money and Banking

The past month has been a quiet one in the New York money market, with further credit liquidation. The borrowings of New York city member banks of the Reserve bank are down to $1,000,000. Total borrowings of the twelve reserve banks are down from $406,000,000 on January 29 to $342,781,000 on February 26, while open market bills are up from $258,000,000 to $299,000,000 and government securities from $476,000,000 to $482,000,000. Total reserve credit outstanding is $1,138,000,000, against $1,153,000,000 on January 29.

Changes in Federal Reserve discount rates in February were as follows:

Feb. 6	Richmond	5	to	4½
6	New York	4½	"	4
7	Chicago	4½	"	4
7	Cleveland	5	"	4½
7	Minneapolis	5	"	4½
7	Dallas	5	"	4½
11	St. Louis	5	"	4½
13	Boston	4½	"	4
15	Kansas City	4½	"	4

The Reserve banks of Philadelphia, Atlanta and San Francisco had previously established the 4½ rate.

The weekly reporting member banks show a pronounced liquidation in the weeks from January 29 to February 19, loans being down $143,000,000, nearly all of which is of the commercial class, those on securities remaining almost unchanged. Investments increased $42,000,000.

Money rates have undergone but little change during the month. Call money and time loans on collateral security are quoted as a month ago, to-wit: on call, 4 to 4½ per cent; time, 60-90 days 4½ to 4¾, 4, 5 and 6 months 4¾ to 5. Commercial paper quoted last month at 4¾ to 5 is now quoted at 4½ to 4¾. Bankers' acceptances have undergone two reductions since last month, to-wit: from 4 to 3⅞ to 3¾.

Gold movements to and from this country in the month have consisted in the main of receipts from Japan ($30,000,000) and Brazil ($11,690,000). A further shipment from Brazil of about $5,000,000 is reported on the way. Approximately $2,000,000 has come from Bolivia, and $1,000,000 from Colombia. An aggregate of $4,158,000 was charged out by earmarking.

Exchange rates also have undergone little change. The lowest dollar rate for sterling during the month was $4.86, at the close, and none of the European rates are near the gold point for either import or export.

The Bond Market

The bond market has developed an improved tone and action in the month of February. Contributing factors have been a further slight easing in money rates and a sharp decline in the offering of new issues. Total volume of bond offerings advertised in the New York market through February 25th was $289,000,000, according to the Wall Street Journal, against a total of $626,000,000 in January. This decline is accounted for by a falling off in domestic offerings. In the public utility group new issues totaled $76,000,000 as

compared with $388,000,000 in January. Total municipal offerings were only $42,000,000 as against $120,000,000 in January. Railroad and industrial offerings were also smaller. New foreign issues, on the other hand, were much larger. Including Canadian issues of $32,000,000, total foreign offerings were $117,000,000 in February against approximately $50,000,000 in January.

The volume of new stock offerings was again very small, totalling only $22,000,000, or about $10,000,000 less than the meager January total, and presenting a vivid contrast to the huge offerings of last summer.

Dealers are now reporting a more active demand for all classes of high-grade bonds. Increased interest has also been most noticeable in the case of foreign dollar bonds, for which a strong demand has developed from European sources. The steady decline in European money rates has resulted in large purchases from abroad of issues previously floated in this country. This repatriation of foreign dollar bonds has been most noteworthy in the case of leading French and German issues. Two issues of French 7s and 7½s, and the German 7s floated here in 1924 in connection with the Dawes Plan, each amounting originally to $100,000,000 are said to be disappearing rapidly from this market. The demand for Italian and Scandinavian obligations is also strong.

Domestic buying of municipal and corporate issues was more active in February. During January and the first half of February, the demand for bonds was concentrated almost entirely upon issues of the highest grade. Recently, however, signs of increased interest in second grade issues have become more apparent. Bonds in the hands of dealers are reported to be steadily dwindling. In the case of tax exempt issues, the supply of bonds in dealers' hands is now estimated conservatively at about $50,000,000, as compared with a normal supply of $125,000,000. to $150,000,000. Institutional demand has accounted for most of the recent bond buying, and there are at present no indications of any slackening in interest from this source. An important factor has been the upward trend in savings bank deposits since the first of the year.

This general improvement has been reflected in a better tone for bond prices of all classes. Under the impetus of the strong buying from abroad, most foreign dollar bonds have continued their gradual rise. Domestic bond averages, which showed a sagging tendency under the weight of heavy offerings in January, held firm throughout February, with numerous small advances among many of the high-grade issues.

Money in Europe

The trend toward cheaper money in London and on the Continent continued during the month of February. The reduction of discount and advance rates by the Bank of France by ½ and 1 per cent on January 30 brought prompt action on the part of other central banks, especially when it became evident that the drop in the franc removed further danger of money flowing to Paris.

The Bank of England effected its fourth reduction since the end of October a week later, on February 6, its rate now being 4½ per cent. The Reichsbank reduced the rate on February 3 to 6 per cent and the Central banks of Austria and Hungary followed on February 10 and 12, lowering their rates to 6½ per cent. The following table shows that in most of the countries of western and central Europe money is now as cheap as in 1927.

The exception is Italy, which so far has failed to reduce its rate of 7 per cent, maintained since March, 1929. The reason for this probably is the quotation of the Italian lira, which continues close to the gold export point.

CENTRAL BANK RATES IN EUROPE

	Present Rate	High in 1929	End of 1928	End of 1927
Western Europe				
England	4½	6½	4½	4½
France	3*	3½	3½	4
Belgium	3½*	5	4	4½
Holland	4†	5½	4½	4½
Switzerland..	3½	3½	3½	3½
Central Europe				
Germany ...	6‡	7½	7	7
Austria	6½	8½	6½	6½
Hungary ...	6½	8	7	6
Italy	7	7	5½	7
Sweden	4½	5½	4½	4
Denmark ...	5	5½	5	5
Norway	5	6	5½	5
Eastern Europe				
Poland	8	9	8	8
Rumania ...	9	9½	6	6

*Lowest since war. †Lowest since 1925. ‡Lowest since 1927.

Even more striking evidence of increasing monetary ease in Europe is to be found in the fact that the decline of open market rates has been faster than of Central bank rates. In a number of countries three month bill rates are more than 1 per cent below the Central bank rate. The following table prepared on the basis of quotations published by the Dresdner Bank in Berlin will illustrate how much the open market rates are out of the line with the Central Bank rates:

	Aver. Rate in December	End of January	Current Cen. Bank
London			
Day to day money	4.26	3½	—
Three month bills	4.75	3 13/16	4½
Paris			
Day to day money	3.46	3—3½	—
Three month bills	3.52	3¼	3
Berlin			
Day to day money	8.12	4½—5½	—
Three month bills	6.98	6	6
Amsterdam			
Day to day money	3.10	1	—
Three month bills	3.50	2⅝	4
Brussels			
Day to day money	2.50	1½	—
Three month bills	4.40	3 3/16	3½
Zurich			
Day to day money	2.04	2	—
Three month bills	3.16	2⅝	3½

The current three month bill rate in London is 3 3/16-3½ or more than one per cent below the Bank of England rate. In Berlin the current rates are also ⅞ to 1 per cent below the Reichsbank rate, and a further reduction in the latter is talked of.

Although the Bank of England increased its gold holdings but slightly during February, by reason of the reductions in circulation and security holdings, the ratio of reserve to deposit liabilities has risen to over 65 per cent, which is the highest since the war. Apparently the Bank has been endeavoring to raise open market rates by selling securities, its holdings of the latter having been reduced approximately $100,000,000 during the past month.

The gold holdings of the Bank of France have not changed materially during the past month, the reduction of the discount rate to 3 per cent having practically put an end to imports. A shipment of 30,000,000 francs (about $1,200,000) has been made from Paris to Berlin, and is taken as a sign that the Bank of France is ready to release gold as the course of international business requires.

The Reichsbank is the institution which has been accumulating gold in the last month, gaining about $26,000,000 to the 23rd ultimo, most of which came from London and largely by private importations. The bank's total of gold and foreign exchange is now approximately as high as one year ago.

Although the general reduction of interest rates has been a great relief to Europe, sentiment has turned pessimistic on account of the fall of commodity prices. A revival was hoped for as a result of cheaper money, but the price reductions have had the usual effect of making buyers timid. Manufacturers hesitate to buy raw materials and merchants hesitate to buy finished goods on declining markets. It is an illustration of the sensitiveness of all business to price changes, and the great losses suffered in 1920-21 are still fresh in everybody's mind. The rapid decline of open market interest rates related above probably may be ascribed in part to the hesitant attitude of business. The textile industries, including rayon, show lessened activity, and corresponding to this all reports from South America tell of very light imports into the countries of that continent. A similar situation exists in the British Dominions, in China, Japan, and generally where purchasing power depends upon raw materials and foodstuffs.

Bank Rates and Reserves in South America and British Dominions

The effect of the fall of prices upon banking conditions and the exchange positions of the South American countries and the British Dominions is shown by the gold holdings in December, 1928 and December, 1929, given below. It will be seen that the course of money rates is the opposite of that in Europe and the United States, and that as the result of a practical cessation of funds from foreign loans, together with lessened value of exports, they have lost considerable amounts of gold.

Central bank rates and commercial paper rates both show a considerable increase as compared with a year ago.

Central Bank Rates	Dec. 1929	Dec. 1928
Colombia	9	7
Chile	6	6
Peru	7	6
Ecuador	10	8
South Africa	6	5½
British India	7	7
Commercial Paper Rates (Best)		
Argentina	7¼–8½	6–7¼
Chile	7½–8	7
Brazil	8–12	8-10

GOLD HOLDINGS OF SOUTH AMERICAN REPUBLICS AND BRITISH DOMINIONS
(in millions of Dollars)

	Dec. 1929	Dec. 1928
Colombia	37	63
Brazil	150	149
Argentina	429	607
Chile	8*	7
Peru	21	21
Australia	89	108
Canada	78	114
South Africa	36	39

* November, 1929.

HOLDINGS OF FOREIGN BILLS AND RESERVES ABROAD

	Dec. 1929	Dec. 1928
South Africa	32	41
Australia	41	84
Chile	50*	55

* November, 1929.

Low-Priced Staple Commodities

In the January Letter we referred to the depressed conditions existing in countries largely dependent upon exports of certain raw or crude commodities which at present are bringing low prices, and the effects which this situation may have and indeed is having upon world trade. During the past month the general tendency of prices has been lower, and in several instances, owing to developments af-

fecting particular commodities, or a lack of buying interest, the declines were pronounced. This was true of wheat, and other grains suffered sympathetically. In general it may be said that recent declines have been of this character or due to the business recession, which has placed the markets under the influence of pessimism. Sugar and silver have made new low records for all time.

The following table gives the prices of an important list of staple commodities of the raw or crude class on February 25, 1929, September 23, 1929, and February 24, 1930:

COMMODITY PRICES

Sales for immediate delivery in New York, unless otherwise indicated.

	Feb. 24, 1930 (cents)	Sept. 23, 1929 (cents)	Feb. 25, 1929 (cents)
Metals (in lbs.)			
Steel, Iron Age Av.	2.31	2.40	2.39
Copper, Electro. Ct. Val.	18.00	18.00	18.25
Tin, Straits	38.38	45.38	49.00
Lead, E. St. Louis	6.10	6.70	6.88
Zinc, E. St. Louis	5.15	6.73	6.33
Silver (fine oz.)	43.00	50.50	56.25
Textiles (in lbs.)			
Cotton, Middling	14.90	18.40	20.55
Wool, Merinos, Boston	84.00	95.00	112.50
Silk, Japan, double extra	4.50*	5.15*	5.10*
Rayon, Visc. 300 D 40-60F	1.00*	1.00*	1.10*
Jute, first marks	6.25	7.50	8.00
Tropical Products (in lbs.)			
Coffee, Rio No. 7	10.25	15.50	18.25
Coffee, washed Bogota	18.50	23.00	25.00
Sugar, 96% raw, less duty†	1.78	2.25	1.94
Tea, Ceylon Pekoe, Com.	26.00	28.00	31.00
Cocoa, Beans, Accra Main	9.00	11.00	10.50
Rubber, Smoked Sheets	16.38	20.25	26.62
Coconut Oil, tanks	6.88	7.00	8.25
Palm Oil, Lagos	7.50	7.75	9.25
Grains & Foodstuffs (in bu.)			
Wheat, No. 1 North, Minn.	123.50	129.88	123.62
Wheat, No. 2 Hard, Kan. C.	105.50	127.50	124.25
Corn, No. 3 Yellow, Chi.	79.25	98.25	93.75
Oats, No. 3 White, Chi.	41.75	49.63	51.75
Barley, Milwaukee	62.00	67.50	69.00
Beans, Lima (lbs.)	12.25	16.50	13.50
Cottonseed oil, S. W. (lbs.)	7.25	7.62	9.12
Linseed oil (c.l.) (lbs.)	14.00	15.80	10.20
Rice, fancy blue rose (lbs.)	4.88	5.00	4.50
Steers, good, Chi. (lbs.)	13.87	14.38	13.21
Hogs, heavy, Chi. (lbs.)	10.75	9.85	10.52
Lambs, bulk, Chi. (lbs.)	11.75	13.12	16.75
Butter, Cre. ex. (lbs.)	35.50	47.25	50.00
Oleo oil, Eastern No. 1 (lbs.)	12.50	11.13	11.75
Hides, nat. steers (lbs.)	14.00	19.50	14.75
Miscellaneous			
Gasoline, tank wagon (gal.)	13.30	14.00	17.00
Sulphate of ammonia (ton)	2.00*	2.15*	2.35*
Southern Pine, Kan. C.**	20.62	22.61	24.72
Douglas fir, Portland***	12.32	16.56	16.31
Coal, Pool 9 Cent. Pa. (ton)	1.85*	1.75*	1.85*

* Dollars.

† Based on price of duty-free sugar.

** Average of 3 grades of Common No. 1 and No. 2.

*** Average of 4 grades of Common No. 1 and No. 2.

Supplementing the discussion of last month, the situation is briefly reviewed herewith:

Argentina and Uruguay

In Argentina, the first official estimate of the cereal and linseed crops now under harvest places the production of wheat, oats and linseed at approximately 50 per cent of last year's crops. Inasmuch as the prices of wheat and oats are no higher than a year ago and the price of linseed not high enough to compensate for the smaller crop, the loss in export values is important. Fortunately, however, the corn crop is coming along with excellent promise, and inasmuch as the acreage planted was much larger than ever before, an exportable surplus of 10,000,000 tons is now considered probable. This will surpass all records, and inasmuch as the United States has a small crop, the European market is likely to be a fair one, although the corn crop of southeastern Europe is unusually large. Corn, therefore, probably will make good to Argentina some part of the falling off in the other grains.

The slow demand and low prices for wool and hides remain a depressing factor, retail business is slow and business generally is disposed to follow conservative policies. Cattle, however, are bringing good prices.

The closing of the conversion office has resulted in violent exchange fluctuations, which affect the prices of all Argentine exports and imports, to the disadvantage of the country, also in higher interest rates than the country has known in the last decade. Another result of the policy of suspending gold payments has been that American bankers who had undertaken to market a loan of $8,000,000 for the province of Buenos Aires for the construction of school buildings have advised the authorities that in view of this action they cannot undertake to carry out the original arrangement. It is reported that a loan for a smaller sum will be made.

Advices from Uruguay are somewhat like those from Argentina, although grain is a factor of less importance. Exports of wool are considerably behind this date last year, "buying interest in all parts of the world being extremely slack. There is still an enormous amount of unsold wool which is continually losing value. This naturally has had its repercussion upon business. Conditions in the cattle and cereal trades are better than last year, but not sufficiently so to offset the losses on wool."

The Coffee Countries

The situation in the coffee countries is about as heretofore stated, except that credit conditions have been growing more stringent, with resulting pressure upon debtors and numerous failures among business houses. In Brazil the Sao Paulo banks as a policy of prudence have improved their liquid position decidedly in recent months by reducing loans.

A report from a reliable source states that the banks having branches in the interior have adopted the policy of refusing to protest any bills drawn on interior firms, except where the

same are to be protested against drawer as well as drawee. This results in practically a moratorium throughout the interior, but does not apply in the City of Sao Paulo. Obviously this works hardship upon firms in the leading cities doing business in the interior and numerous cases are reported of resulting embarrassment. It is said, however, that this policy in itself makes little difference in the situation, "inasmuch as most interior firms would not be able to pay their bills anyway, as they are not being paid by their customers, who are largely plantation workers and others who are dependent on the plantations. It is true that most of the plantations have only paid part of what they owe their workers, if any, and that there is very little money circulating in the interior." Up to the middle of January nine failures among coffee houses had occurred with liabilities aggregating 144,000 contos, or approximately $18,000,000. Failures among firms in other lines also were important.

The feeling in Brazil seems to have reached the stage where a calamity to the next crop would bring a sense of relief. This is the outcome of a policy which has been described the world over as a practical demonstration of successful price regulation. The authorities always have declared with undoubted sincerity that they were intent only upon assuring a "fair price" to the producer, but the result of this "fair price" has been a rapid increase of coffee production not only in Brazil but in every country where coffee could be grown, until the stocks on hand are unmanageable, and hopes are centered upon a miracle or calamity of some kind that will stop further accumulations until the present holdings can be sold and the indebtedness based thereon liquidated. Naturally, all industry is depressed, and unemployment is serious. Automobile sales are at a standstill. Wileman's Brazilian Review (Rio de Janeiro), January 23, says that the last quarter of 1929 had shown "a recession in business activity probably without a parallel in the annals of Brazil's commercial history."

Much of the coffee in interior warehouses is of the crop of 1928, a part of which was damaged by rain and is saleable only at about one-third the price of good coffee. Recently the Coffee Institute has made an offer that these low grade coffees may be turned over to it for destruction without other compensation than that other coffee may be substituted on the waiting list. This will effect a reduction of warehouse stocks.

Australia and Wool

The Premier of the Commonwealth of Australia has made representations to the Government of Great Britain looking to a suspension of the subsidy which the British Government is offering for emigration from the home country to that Dominion, on the ground that so much unemployment exists in Australia that an increase of population dependent upon employment, or requiring aid in settlement is undesirable.

Australia is in the same situation as Argentina in having a short crop of wheat at a time when carried-over stocks are so large that no scarcity exists and no compensation is had in higher prices. Moreover, it is seriously affected by the decline of wool prices. Confidence in values has been shaken to such an extent that at recent auctions results have been extremely unsatisfactory and a large part of the offerings have been withdrawn. The London Times of January 24, 1930, gives the following account of the auction to which all wool markets had been looking for some weeks:

> So far the London wool auctions, which opened on Tuesday, have not been, on the whole, favourable to growers. Some allowance was made for the very depressing weather on the first day which, it was thought, might adversely affect the inspection of the wool and subsequent buying. The unsatisfactory tendency continued, however, on Wednesday, and yesterday messages were dispatched to Australia indicating that, on the average, many prices were nearly 25 per cent below those current at the previous sales in December, and about 50 per cent below those current a year ago. A good deal of wool has already been withdrawn from the sales, and it remains to be seen if the present series will run its full course until February 11. Much depends on whether the lower level of quotations encourages buying, as is hoped.

The correspondent of the London Economist, at Bradford, the seat of the British woolen goods industry, writing for the February 1st issue, described the situation as follows:

> The wool auctions have opened in London with values very much in line with what was expected; wool appears to be "dirt cheap," but always there is the feeling that it may yet be cheaper, and until prices find rock-bottom users everywhere will continue to operate on hand-to-mouth lines and there will be no sustained volume of business to reveal the real position.

A view of the wool industry from the standpoint of large producers is had by reading recent reports of the large Australian pastoral companies. The annual meeting of the Australian Pastoral Company was held in London on January 21, 1930, and following is an extract from the address of the Chairman:

> Our main items of revenue are, as always, the proceeds of wool and of sales of stock. During the year under review our wool has only realized £129,000 ($627,000), against £196,000 ($953,000) in the previous year. We had 6,226 bales available for sale, against 7,022 bales in the previous year, which gives an average net price of £20 13s. 4d. ($100.57) per bale, compared with £27 15s. 9d. ($135.22) per bale.
>
> Wool prices now are on a very low level, but I do not think that we can count on their returning to a high level in the near future, and, indeed, it is very questionable if the much higher prices of a few years ago are desirable. Whether it is due to high prices in the past, or to the competition of artificial silk, or to more scanty clothing, or to some other cause, it is certain that the production of wool has for the moment outrun the con-

sumption, and a period of low prices is the best means of once again stimulating the demand for wool; but the present level is unnecessarily low for this purpose, and some reaction after the heavy fall in the last 12 months is both to be expected and to be desired. Moreover, the surplus production is not very large, but any surplus has the effect of depressing prices unduly. The Land Settlement Advisory Board gave in their report the average cost of production of one pound of wool in 1911 as 5.39d. (10.5c) and in 1925 as 12.43d. (24.2c); and I do not think that average costs have dropped since 1925. These figures surely indicate that the improvement of the industry should be sought in a reduction of costs rather than in an increase of prices.

Sales of sheep and cattle were also very difficult to effect at satisfactory prices, and the balance of sales over purchases left us with a credit of only £15,000 ($73,000), against a credit of £88,000 ($428,000) in the previous year's accounts.

Following the opening London sales, prices improved about 5 per cent and have been well maintained since. Announcement has been made that the auctions in Australia, which usually are completed in April, will be spread along to the middle of August. Declines on the higher grades are shown by the following prices, the average of January sales:

PRICES IN LONDON OF TOPS IN OIL
(January quotations)

	1925 d.	1926 d.	1927 d.	1928 d.	1929 d.	1930 d.
64's warp	79	50½	46	53½	48	32
60's super	75	46½	42¼	50	45	30
56's average	43	26	31⅝	38½	31¾	24¼
46's carded	35	23	20⅝	23½	24	18½
40's prepared	32½	21½	19½	22⅛	22½	18

Increase of production in the four principal wool countries in recent years is shown by the following table:

ESTIMATED WOOL PRODUCTION IN THE GREASE
(In millions of lbs.)

	1909-13 5 year average	1925	1926-28 3 year average	1929
United States	314	292	331	363
Argentina	332	319	346	330
Uruguay	133	116	138	150
Un. of So. Africa...	158	235	268	302
Australia	727	834	921	925
New Zealand	180	200	223	255
Europe, outside Russia	418	357	348	336
Total	2,262	2,353	2,570	2,661
Russia	330	315	368	397

Although the increase from 1928 to 1929 does not appear large, stocks already were accumulating, and with slow trade in goods buying has been of the indifferent character under which prices give way.

Australian wools make the world prices for good grades and in the past month the Senate of the United States has raised the import duty in the pending tariff bill from 31 to 34 cents, which applies to all dutiable wools, the purpose being to lessen to some extent the competition resulting from these declines abroad.

The fall in wool and the high volume of general importations into Australia in recent years, have had the effect of producing a heavy adverse trade balance. We referred last month to the large gold shipments to London on this account, and since then another shipment of £7,000,000 (nearly $35,000,000) has been made. The London Times of January 26, describes the exchange situation as follows:

With the latest alteration in the Australian exchange rates, which comes into force today, the officially quoted discount on the Australian pound reaches a level which has not been touched since the early years of the century. The Australian banks in London will now sell demand drafts on Australia at £97⅝ per £100, while their buying rate is £96 10s.; cable transfers on Australia are obtainable at £98. In spite of the widening in the margin between buying and selling rates it is not considered in Australian banking circles in London that increased profits will thereby accrue to the banks. The chief aim in again increasing the discount on the Australian pound is to check imports, for it is felt that these are still being maintained at too high a level in view of the volume of exports and of the external demands for the service of Australian loans. Thus the buying rate for drafts on Australia has been raised to a greater extent than the selling rate. While British exporters must inevitably be affected by the fresh reduction in the price they receive for bills on Australia, it is believed to be more particularly desired to check certain lines of imports from the United States, notably motor cars, which continue to be sent to Australia on a large scale.

Vegetable Oils

A great trade development with the tropics has been under way in recent years, beneficial on the whole to all countries concerned, but at first inevitably introducing new competition for temperate zone products. Vegetable oils obtained from coconuts and palm kernels are competing with the animal fats which formerly were almost the only available fats for edible purposes and for soaps and other uses. They are entering largely into use for margarine and sharp complaint is made that even the farmers of the United States are using that commodity freely as a substitute for butter in their own consumption.

The African and Eastern Trade Corporation, formerly in the African trade, has been merged in the last year with the Margarine Union, the business of both passing to The United Africa Company, a corporation with a capital of about $75,000,000. The final meeting of the first named concern was held in London on January 25, at which time the Chairman addressed the stockholders with some of the details of the business which are interesting in connection with the decline of prices in its line of products. He said, in part:

Our principal products are oils and oilcakes derived from oleaginous seeds and from the palm fruit. They compete with similar products derived from other sources, such as copra, soya beans, whale oil, Indian ground nuts and other similar materials. The production of those materials in the year 1927 amounted in round figures to 2,500,000 tons; in 1929 it amounted to 4,000,000 tons, an increase of 60 per cent in two years. Can anyone wonder that consumption has en-

tirely failed to keep pace with this overwhelming increase in production? No combination, however powerful, could save prices from suffering a decline under such conditions.

Agricultural Products

The Bureau of Labor list of farm products had an average value in the month of January 101 per cent of the average of that month of 1926, but this compares with 105.9 per cent in January, 1929. Cattle and hogs are bringing good prices, but sheep and lambs are lower. Sheep have been in favor for the last five years, but the market for mutton and wool has become over-supplied and the fall of wool prices also affects values. Receipts of sheep and lambs at seven leading markets in the first two weeks of February totalled 554,000, against 440,000 in the corresponding weeks of 1929. Dairy products have lost heavily in the last four months as the result of increasing stocks. There have been no overseas importations, but an increasing per capita use of butter substitutes has been noted for several years.

Wheat is discussed under "Farm Board Policies," but something more may be said of the reasons for weakness. We are indebted to the Food Research Institute of Stanford University for the following figures of the wheat carry-over in each year since and including 1925:

(Million bushels)

	1925	1926	1927	1928	1929
United States	135	111	138	142	262
Canada	26	35	48	78	104
Canadian in U. S.....	3	4	5	24	23
Argentina	56	61	65	90	120
Australia	36	30	34	42	45
Afloat for Europe....	33	39	46	45	38
U. K. Ports	9	4	8	10	6
Totals.............	298	284	344	432	598

The prospective carry-over in 1929 was the cause of the break in price to below $1 per bushel at the end of last May. The recovery which followed was due to disaster to the Canadian crop by drought, but the disappointing demand from Europe and favorable reports from the coming Fall wheat crop has now raised the specter of large supplies in the next crop year. Nobody wants to carry wheat into a year of abundant supplies. The cost of producing this grain, and all the grains, has been substantially reduced by the machinery which has been brought into use since the war. More wheat is likely to be grown in all countries at or around $1.00 per bushel. It is a crop for large-scale operations.

Sugar has been discussed so often in these columns that little more need be said. The world has been making too much sugar. Like wheat the production was greatly stimulated by the war. Prices may improve when the urgent marketing which always features the first of the season is out of the way.

Cotton is affected by a depressed condition in the goods industry over the world, in which the disturbed conditions in China and India, the low price of silver and unemployment in many countries are factors. It is the clothing material of universal use.

AMERICAN COTTON, ACREAGE, PRODUCTION AND CONSUMPTION

(Garside)
(000's Omitted)

Crop	Acreage acres	Production bales	Carry-over Aug. 1	Total Supply bales	Consumption bales
1926-27...	47,087	17,833	5,501	23,334	15,753
1927-28...	40,138	12,675	7,794	20,469	15,500
1928-29...	45,341	14,330	5,121	19,451	15,169
1929-30...	46,594	14,782	4,474	19,256	

Consumption—Aug. 1-Dec. 31, 1928......6,271,000 bales
" " " " " 1929......5,905,000 "
" Decline, five mos. .... 366,000 "

The 1929 crop was about 450,000 bales larger than the preceding one, and exports in the seven months to the end of February have been about 800,000 bales smaller. There is a question as to whether the growing popularity of silk and rayon may affect cotton, but cotton is finding many new uses and the demand should be well maintained.

The most notable development in recent years has been the rapid extension of acreage in the semi-arid regions of Texas and Oklahoma, shown by the following figures:

COTTON ACREAGE HARVESTED

	1914	1921	1926*
Texas	11,931	10,745	18,374
Oklahoma	2,480	2,382	4,674
	14,411	13,127	23,048
All other states.............	22,421	17,382	24,039
Total cotton acreage.......	36,832	30,509	47,087

*Year of the largest acreage.

It can be seen that Texas and Oklahoma, which had less than one third of the cotton acreage in 1914, had nearly half of the total cotton acreage of the United States in 1926.

This development has been mainly due to the ravages of the boll-weevil in the older cotton territory and the discovery that the boll-weevil does not flourish in the region of scanty rainfall. Moreover, cotton has shown itself to be a dry weather plant to an extent not previously appreciated. The high cost of producing cotton in the older states in combat with the weevil, and the lower cost in the new lands of the plains region, with exemption from the weevil, have resulted in declining production in the one region and an increase in the other. It has made hard times in the old section, for farmers do not readily abandon a crop to which they are accustomed. Much of the agitation for farm relief has been due to the competition of the plains region with older sections, in both cotton and wheat. The price of cotton is being determined by the

areas of fresh and fertile soils and by larger yields per acre than can be had in much of the old cotton territory.

The General Price Situation

The decline of commodity prices has become a subject of common discussion all over the world, has aroused no small amount of concern and thereby has disturbed confidence and exerted an influence unfavorable to the recovery of business from the reaction which it began last Fall. The subject is important enough to warrant careful attention.

The table which has preceded shows the declines which have occurred in the prices of certain selected commodities in the last year and since September. Below is given another table which shows the index numbers of several well known price tables, compiled in different countries either by Government bureaus or statistical authorities of recognized standing. Each of these tables represents many commodities, the number in each case being given. The tables are not composed of just the same commodities, and transportation charges and import duties are a factor in them, but as a rule they should and usually do show the same general trend. Some of them consist wholly of raw commodities while others with a longer list include certain manufactures. The latter usually show less violent fluctuations than the former, for the reason that wages are a larger factor in their value.

WHOLESALE PRICE INDEXES
(Based on prewar gold values)

	Jan. 1930	Dec. 1929	Sept. 1929	Ann'l 1928	Av'ges 1925
United States:					
Bureau of Labor Stat. (550)	133.8	135.0	139.7	140.0	148.3
Bradstreets (96)	126.7	132.8	137.9	143.6	151.5
United Kingdom:					
Board of Trade (150)	131.0	132.5	135.8	140.3	159.7
Economist (44)	123.7	126.9	131.9	140.9	159.1
Statist (45)	125.4	128.0	132.5	141.2	159.0
Germany: (400)	132.0	134.3	138.1	140.0	141.8
France (45)	117.0	119.0	121.3	126.0	133.0
Italy (125)	122.4	125.0	128.1	133.9	133.0
Belgium (134)	......	119.0	121.0	122.0	137.0
Holland (48)	......	137.0	141.0	149.0	155.0
Sweden (174)	133.0	135.0	140.0	148.0	161.0
Australia (92)	......	164.0	170.8	164.7	169.5
Canada (238)	149.3	150.3	152.0	150.8	160.3
Japan (56)	......	158.0	155.0	159.0	166.0

Since about 1922, when following the great deflation of 1920-21, prices reached a fair degree of stability, the trend has been generally downward, and in Europe, particularly Great Britain, on account of industrial depression, a considerable body of opinion has held that business was being restricted for want of adequate credit supplies. In Great Britain the Government has been criticised for raising the value of the pound sterling to its old parity with gold, the argument being that wages and prices were thrown out of relationship and the export industries placed in a difficult position.

The Standard of Value

Professor J. M. Keynes, well known as the author of "Economic Consequences of the Peace Treaty," and one of the leading critics of the Government's policy, in a recent public address expressed himself in part as follows:

> I pointed out last year that the disparity of movement between prices and wages since 1924 had faced employers with the task of increasing efficiency by 16 per cent if they were to hold their own. I ventured to guess that efficiency was perhaps increasing at the rate of 1½ per cent per annum, with the result that they might have reduced their relative disadvantage from 16 per cent to 10 per cent in the four years ending in 1928. Unfortunately, the course of events during 1929 has further aggravated their problem instead of mitigating it; for\prices have fallen by a further 4-5 per cent whilst wages are unchanged. Moreover, whilst the difficulties in which the return to gold involved our own industries in the period after 1924 were mainly local to this country, the fall in the wholesale prices of raw materials has now taken on the character of a world-wide disaster. The storm centres are to be found to-day, in my judgment, neither in Great Britain nor in the United States, but in the great producers of raw materials overseas. For these areas are being reduced to very grievous distress by the combined circumstances of the fall in the prices of their chief products and the difficulty of obtaining funds on the International Loan Market.

. The London Statist, commenting upon the record of its index table during the past year, says:

> The almost unanimous evidence of the sectional index numbers points to the working of a general influence underlying the movements of sterling prices over the year 1929. The statistical position of individual commodities, such as wheat, coffee, tin and cotton, may be advanced to explain the fall that has taken place in the prices of these commodities, but the downward trend in the prices of these and of other commodities entering into the calculation of the index numbers unquestionably reflects the influence of the monetary factor. * * *
>
> The deterrent effect of high money upon business enterprise is sufficient, however, to exert a definitely deflationary influence, and it is this influence which is reflected in the downward movement of sterling prices during 1929.

Stock Market Absorption of Credit

The theory which these authorities advance is based upon certain fundamental principles of monetary science and banking practice, but it is possible to accept the general theory of the argument without being convinced that the fall of prices which has occurred since 1922, and especially the large part of it which has occurred in the last year, has been due to inadequacy in the aggregate of credit resources. There are other uses for credit besides financing production and trade, and there is reason for believing that they have had more influence upon credit conditions in recent years than any deficiency in the supply of gold. It is a familiar fact that in the last year the New York stock market did attract and tie up from other employment a great amount of credit and bank reserves, and that since the collapse of speculation more than $100,000,000 of gold has been exported to Europe with the result that credit conditions have been eased in a pronounced degree.

The fact is that from 1914 to the present time credit conditions the world over have been under the influence of the war and abnormal economic conditions resulting from the war to an extent that makes it extremely difficult if not impossible to say what the state of credit, the level of interest rates or the price trend would have been under normal conditions.

Flow of Gold to the United States

From 1920 to 1927, with the exception of 1925 (due to participation in the Dawes loan to Germany), this country had an almost uninterrupted influx of gold, the net increase of gold stock being approximately $1,700,000,000. This gold did not come because it was wanted or inducements were offered, but as the result of abnormal economic, financial and political conditions in Europe. In the first part of the period considerable amounts were used to pay off indebtedness of member banks at the Reserve banks, but from June 30, 1922, to June 30, 1927, total bank loans and investments increased by approximately $14,000,000,000, of which only about $3,000,000,000 can be classed as commercial loans, on the basis that all of the remainder represented either bonds purchased or loans on the security of stocks, bonds or real estate.

Call money throughout the year 1924 was barely above 3 per cent. Bonds and stocks were at an abnormally low level, on account of the burden of war paper in the banks and on the market. With low rates for money and high yields of securities, the rapid increase in the lending power of the banks started the great rise of security prices, which attracted funds in such volume that it defied banking control and over-ran reasonable bounds.

No such movement of gold as that which was behind the New York market would have been possible under normal conditions. The extraordinary movement had reactions of extraordinary magnitude. It started a speculative movement in which all the world participated and which gained such strength that it ignored the exportation of $500,000,000 in gold and by its own attraction effected the recovery of one-half of that loss over the combined influence of the banking authorities of all countries, including the United States.

The world has not yet found its equilibrium since the war. It has been rocking under the reactions and counter reactions of economic forces ever since. Speculation has not been confined to the United States; it has been active in all countries, and it is not certain that if the gold reserves had been larger, with bank credit more abundant and cheaper, the disorder would not have been greater.

Unstable Business Conditions

It is reasonable to believe that throughout all of this post-war period the instability of credit conditions and of interest rates have been unfavorable to business and to steady employment for the wage-earning millions in the chief industrial countries. A disturbance of the parity between wage rates and commodity prices, resulting from the readjustments incidental to the reestablishment of the gold standard in a number of countries, has been a factor. The complicated system of exchange by which international trade is carried on has not been working smoothly at any time since the war, and the difficulties attendant upon trade have affected consumption primarily and no doubt have had effects upon the price level.

Speculation is not the only competitor with production and trade for bank credit. Banks all over the world are carrying large amounts of what strictly speaking is investment paper, which if purchased by individuals would not affect bank deposits or reserves. When bank credit is used to buy such paper either for customers or for bank holdings, the body of deposits is increased and reserve requirements are increased. The British Government ever since the war has had a very large short debt in the form of Treasury bills, which has been reduced by budget surpluses and conversion loans, but even now stands above $3,500,000,000. This comment is not made as criticism but as illustrating the demands upon bank reserves for other than commercial or industrial purposes.

Over-Production and Over-Development

It does not require resort to monetary theories to account for the declines affecting many of the commodities which have been named and reviewed in the preceding columns. It is true that the causes of price movements are sometimes more obscure than they seem to be, and that under-consumption and over-production produce very similar results, but where expansion clearly outruns normal growth there is little need to press for a more remote and doubtful explanation. The world has made great industrial progress in the last decade and by any standard of value related to human labor many commodities would naturally show declining costs. Moreover, with increasing specialization and increasing capacity for mass production the evil results of heedless, disproportionate and unbalanced production are more apparent than ever before. The argument that all prices decline together only proves the interdependence of industry. All branches of industry are parts of one system, and the system may be disorganized by unbalanced production as well as by faults in the machinery of exchange.

The Present Price Situation

It does not seem that the immediate situation requires much explanation. That business, employment, consumption and commodity prices were not affected more by the credit stringency which existed throughout the first three-quarters of last year is the most remarkable thing about the whole situation. It shows the strong tendency of business to go ahead despite obstacles, so long as confidence is maintained. The situation since the beginning of November illustrates what always occurs after a shock which disturbs confidence. Either in stock markets or commodity markets, prices falling in a disorderly manner excite alarm and trading conditions are quickly changed. Buyers hold off until they can gain an understanding of the new situation or are convinced that prices have reached bottom. Sellers are not always in position to withdraw their offerings and the psychology of panic develops among them. When nobody is ready to buy and holders are determined to sell for what they can get, prices lose all value significance, but they spread alarm.

The business situation has sustained two shocks, first from the stock market, for which it was in some degree prepared, and then from the fall of certain leading commodities for which it was not prepared. Elsewhere we have described in some detail the conditions affecting these commodities, indicating how the purchasing power of certain populations has been directly affected. These conditions must be reckoned with; they illustrate the fundamental solidarity of world interests, and the importance of national policies which aim at the promotion of general prosperity. In our opinion there is no need to conjure up imaginary causes or give importance to improbable speculations. Situations more or less like this have developed many times before, but the organization by which the world earns its living and supplies its wants has an automatic method of recovering its equilibrium, usually finding that it has more to fear from the remedies proposed than from the ailment itself.

In 1920-21 the whole world was directly involved in a fall of prices compared with which the general declines now causing excitement were insignificant. Between the month of May, 1920, and the month of June, 1921, the Bureau of Labor index number for all commodities fell from 251.2 to 123.0, and the index number for raw commodities fell from 244.8 to 109.5. Nothing of this kind has occurred or is possible. For one reason, the credit conditions which were a factor in 1920 are wholly different now, and there are other good reasons too numerous to be discussed now.

The Gold Problem

The above comments are not intended to challenge the validity or importance of the proposition that the world is vitally interested in the stability of the standard of value and that the subject is a very proper one for international consideration and cooperation. We are in full accord with the views of Sir Josiah Stamp, the distinguished economist who was one of the British members on both the Dawes and Reparations Commissions. The London Times has given the following report of a recent address by him:

> In an address on "Money and the Future of Civilisation" to the Philosophical Institution at Edinburgh last evening, Sir Josiah Stamp said that the problem of the monetary standard with the increasing interdependence of the world, was the double one of preserving stable measurements for the proper contractual divisions of the social income within each political unit or area, and of stable exchange measurements between the different political units, not so much for day-to-day foreign trade, though that was important, as for long-term contractual relations, such as mineral and oil royalties, interest on bond issues, political debts, and reparations.
>
> Clearly, then, the problem was an international one, and although much could be done by each nation perfecting its own credit and banking machinery, complete solution could only be obtained by raising the general level of international practice and knowledge. A highly developed industrial country, backward in regard to its development for credit and currency control could keep back the whole advance. It was like the pace of a cycling club, the pace of the slowest members. Much depended, therefore, upon the probity and skill of governments and the practise of central banks.
>
> In a perfect civilization the dependence of highly important social and international relations upon the fortuitous quantity and value of a single commodity would seem to be crude and barbarous, but for these reasons it was extremely unlikely that the general level of nations would be sufficiently advanced for the next 100 years to dispense entirely with a metallic standard. As the nations had inevitably to live with a gold standard wayward and intractable, the least we could do was to make friends with it and understand it and make it amenable. We certainly seemed likely to find it rather a bad master, and our task was to make it a good servant.
>
> The great gain in the last few years was that the practical character of the problem was now being recognised and the immediate dangers to civilization from its non-solution were being appreciated.

Farm Board Policies

In discussion of Farm Board policies it should be borne in mind that "relief" legislation had been definitely pledged by the National conventions of both the great political parties in the last presidential campaign. The subject had been agitated ceaselessly since the great slump of farm products in 1921. Not only farm organizations but numerous other business groups had declared for farm relief of some kind. Usually these declarations were voted without very definite ideas as to how the Government could help the situation, and really signified little more than expressions of good will, but they created the appearance of a public sentiment which in the opinion of the party leaders on both sides made the convention pledges necessary. This is the background of the experiment which is being tried.

In comparison with other measures that had support in Congress the proposal to establish a Farm Board with funds at its disposal to aid the marketing operations of cooperative farm associations seemed to be a fairly conservative proposition. Advocates of other "relief" measures held that it did not go far enough, while those who had no faith that any "relief" legislation would accomplish the expected results hoped that the Board might be helpful in some manner without doing serious harm. Legislation of some kind was recognized as inevitable.

The law is vague in some of its terms, unquestionably allowing much latitude in administration, and of course the Board is pressed to use its authority to the utmost. The President's appointments were well received by the public, the individuals being men of business experience and standing, but they were viewed with suspicion by certain members of the Senate Committee on Agriculture, who put the parties through a searching examination.

Mr. Carl Williams, appointed to the Board from Oklahoma, under the questioning, frankly said that he had not supposed the Board was expected to dissipate the fund entrusted to it, and added the opinion that if it was the purpose of the law and should become the policy of the Board to attempt an arbitrary support of prices at any point above the level justified by the law of supply and demand, Congress would need to appropriate some ten or twenty billion dollars instead of $500,000,000.

Mr. Williams admitted holding the opinion that a high price for a commodity tended to stimulate production and that while a high price for cotton might be helpful to the farmer temporarily, in the long run it "would ruin the farmer, not to say anything about its effect on the United States Treasury." At the time it looked as though Mr. Williams' reference to the law of supply and demand, and other expressions indicative of respect for economic principles, had put his confirmation in peril, but he was not defeated.

Policies of the Board

The central policy of the act is that of building up the farm cooperatives, apparently with the purpose of having them ultimately handle farm products all the way from producers to consumers, and the policies of the Board must be judged by this purpose. They are intended to induce the farmers to join the cooperatives, in the expectation that when this is accomplished these organizations will be able to exert such control over production and prices as will assure remunerative prices. Much that would seem inexplicable coming from a body of practical business men is accounted for by this understanding of the law.

The law provides for loans only to cooperatives, or "stabilization corporations" under their control. At first the policy of the Board was to extend accommodations which would be simply supplementary to the regular banking facilities available to the public, including those of the intermediate credit banks which were established some years ago for the special benefit of farmers. These banks get funds by selling their own paper or rediscounting at the Reserve banks, consequently their rates, although as low as any on high-class commercial paper, are not as low as the rate under the Farm Board act, since the latter provides funds from the Treasury at the lowest rate borne by any United States obligation outstanding. The bulk of the Board's loans thus far have carried the 3⅝ per cent rate, and it is now claimed that no cooperative should be obliged to borrow for any part of its needs at a higher rate than the lowest current on Government paper.

The Board began lending with consideration for the vast extent of the demands which might develop and the limited sum at its command. It wished the farm organizations to obtain what funds they could from accustomed sources and come to it only for that portion of their needs which would be above the usual lending limit. It proposed, however, to lend up to 90 per cent of the market value of cotton or wheat, provided that the commodity offered as security was hedged by a sale for future delivery, made on a public cotton or grain exchange.

That seemed to be going some distance in the way of service, but the hedging requirement was attacked immediately as subjecting values to the domination of the exchanges. As a concession to this criticism the hedging requirement was dropped and without increasing the margin of safety above the 10 per cent. When the Board began to lend on cotton the market price was above 18 cents per pound, and the loan rate was fixed at 16 cents. The Board announced that in its judgment 16 cents was a conservative price for cotton, and although it did not say that it would support the market at this figure this was inferred in some quarters and the price was temporarily strengthened. Gradually, however, the price worked lower and about February 6th touched the loan value of 16 cents and went below it. The Board, standing on its opinion that 16 cents is a conservative price, regardless of open market transactions, has continued to lend 16 cents per pound. The price has since been as low as 14.90 cents for spot cotton and 14.67 for March delivery. Since the cooperatives have no capital, if the price fails to rise above 16 cents by enough to cover carrying charges, the cotton will belong to the United

States Government, but if it does so rise it will belong to the borrower.

The Wheat Loans

The November number of this Letter contained a price schedule showing the rates per bushel at which loans would be made on wheat of different grades at the principal markets, as, for example, $1.18 at Chicago and $1.15 at Kansas City for Hard Winter, $1.25 for No. 1 Northern at Minneapolis, etc. By the first week of February these grades were selling below the loan values in the markets named and have been ever since. At Chicago on February 25, although the cash price on "country run" was held at $1.18 by purchases in behalf of a corporation acting for the Board, the same grade sold for March delivery as low as $0.98¾.

The Board has justified this policy of lending up to full market price, or even above, on the ground that in its opinion the market prices of cotton and wheat have been lower than was justified by what it believes to be the true state of supply and demand.

The Board has organized a corporation to buy the "country run" of wheat at prices corresponding to the loan value, but as these purchases are strictly confined to wheat coming fresh from the country, they have no effect upon the general market. The Northwestern Miller comments upon this situation in part as follows:

> For the first time in the history of this country, and probably of any other, there are two prices for identical wheat. * * * The effect of the government buying policy, so far as it is revealed to date, is to separate all of the wheat in the country into two classes, with unrelated price influences. High grade wheat still on farms and finding its way to market with a single handling at a country station has a fixed value. All other wheat, including the great undigested stock in the visible and private mill and other storage, is, so to speak, orphan wheat, subject to the price influences of domestic and export supply and demand. The "country run" price-fixed wheat can find its way into the non-preferred wheat class, but commercial wheat cannot, by any chance, recover its amateur standing.

In this action the Board is offering a tangible inducement for farmers to join the cooperatives. As in the case of cotton, it is accumulating wheat at prices much above the market. However, it is not accumulating much, because the country wheat movement is mainly over. The Board's purchases so far have had little or no influence on the market, as the bulk of the wheat is now owned by speculators, for whom there is no concern. In the last few days it has been said that the stabilization corporation was supporting the futures, and thus affecting the entire market.

The Wheat Situation

In October, when the Board fixed the basis for loans on wheat, sentiment in this country and Canada was still largely under the influence of the short crops in Canada and news from Argentina and Australia that the crops of those countries also would be short. It was confidently believed by the leaders of the farm organizations in this country and Canada that Europe would be heavily dependent upon these two countries for supplies to the next harvest, and the holding policy was adopted. Europe did not accept this view and proceeded to satisfy its current wants elsewhere. Nevertheless, confidence remained strong that by January 1st other sources would be exhausted and thereafter Europe would have to come here. The Canadian Wheat Pool acted upon this theory and it was the basis of Farm Board policy. When January had passed without a significant increase in the European demand, holders of wheat began to be nervous and to let it go on lower bids, and in February sentiment changed rapidly.

Notwithstanding the short crop of wheat in Canada in 1929, the visible stocks in Canada on February 15 amounted to 205,000,000 bushels, against 185,000,000 at the corresponding date last year. Also on that date the stocks of wheat in the United States aggregated 165,000,000 bushels against 126,600,000 at the corresponding date last year.

It looks as though a miscalculation had been made as to the needs of Europe this year. The European wheat crops may have been larger than reported; moreover, it is certain that the crops of corn, potatoes and other foodstuffs were larger than in 1928. Several governments have raised import duties or enacted milling regulations to reduce importations.

It seems altogether probable that Europe will soon have to buy on a larger scale, but less than four months remain to the next harvest in the southwest. The wheat acreage in that region is larger than ever before, moisture conditions are excellent, and barring unfavorable developments, the prospect is for a larger crop of winter wheat. Furthermore, unless Europe takes wheat on an extraordinary scale between now and July 1, the carry-over into the next crop year will be of good size, and with an average crop of Spring wheat, supplies a year from now may be larger than now. Russia is exporting some wheat this year, and with her great purchases of tractors and expansion of state-operated farms is a standing menace for the future.

It is true that the European demand may yet be large, that conditions for sowing Spring wheat may be very bad, the appeal to the farmers to reduce the acreage may be heeded, the harvest may be bad, etc., but the fact is that the wheat situation at the end of February is not as it was expected to be when the Farm Board fixed the loan value for wheat last October. Even if the saving calamities mentioned should materialize, and the price should rise high enough to make all the loans

good, it is a fair question whether the Board's policy would be vindicated. As the situation stands the Board must be considered as fortunate in not having gotten into the market until after the bulk of the movement from first hands was over.

Speculators Have Taken a Whipping

The plan to build up a marketing system which will handle products from first hands to consumers is inspired by the desire to eliminate speculative dealings. The farmers have always wanted to sell promptly after harvest, and obviously there must be some system for carrying grain until it is gradually taken by the millers for manufacture into flour. Out of this situation has developed the grain trade and the organized exchanges, where the grains are bought and sold. The farmers have been dissatisfied with the prices received, and particularly with the fluctuations which work so many disappointments. Hence the movement to have marketing controlled by farm cooperatives, financed by the Government.

It is of interest as bearing on the subject that the speculators, as they are opprobriously called, are taking tremendous losses on the last wheat crop, as the result of their competitive bidding last summer under the influence of reported shortages. The farmers of the southwest sold their crop rapidly at the high prices thus resulting, and the share of the total crop remaining in farmers' hands is now comparatively small.

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> Foreign markets have lagged behind Chicago and Winnipeg, foreign buyers apparently being slow to accept the damage reports. The situation has been a very interesting one as illustrating the part which speculation plays in price movements on the grain exchanges. It was not a demand for immediate consumption which raised the price of wheat 50 cents per bushel in the face of great stocks and before the Canadian harvest had even begun. It was a demand in anticipation of a future scarcity which raised the price of the entire world crop before a bushel of it was needed for consumption. The rise was due to a competitive demand arising among speculators who were wanting to obtain ownership of a commodity which they believed would advance in value.
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> It has been often said that farmers have no say in the making of the prices of their products, meaning that the individual farmer is practically without influence upon prices and has all the world against him. The remedy has been said to be organization among farmers to act together, but it may be doubted if any organization of farmers would act more promptly, rapidly and effectively than the free markets have acted in the last three months. They have outrun the expectations of the farmers themselves.

It is an innocent speculation to consider what would have been the results if the cooperatives and the Farm Board had been ready to handle the entire wheat crop at harvest last year. Would the farmers have received as much for the crop as they did in the free markets, and if so, how great would the losses of the United States Treasury have been?

An Appeal for Acreage Reduction

The Farm Board has frankly recognized that it can do nothing for the farmers unless its policies are in harmony with the law of supply and demand. Doubtless it intends that they shall be, and so intended when it determined upon the value at which it would make loans on wheat and cotton.

In pursuance of its purpose to have the law of supply and demand on its side so far as possible, it is appealing to the farmers to reduce the acreage in cotton and wheat and the production of dairy products. Obviously this will help in the maintenance of prices. The Secretary of Agriculture in an address at Springfield last month plainly stated that the fundamental trouble with agricultural prices was that production was running ahead of world requirements. Unquestionably this is true. Dr. Baker, senior economist of the Department of Agriculture, in a recent address, delivered at the Agricultural Extension Conference, University of Minnesota, made the statement that "at no time since 1900, and probably not since 1890, has agricultural production increased at as rapid a rate as in the years since the world war." Dr. Baker also said:

> Apparently, the introduction of the automobile, the truck, and the tractor, with associated machinery, which has caused a large decrease in horses and a smaller decrease in mules and has released a large amount of feed for meat and milk animals; together with the influences exerted by the various agencies for the promotion of agriculture,—the agricultural press, the farm organizations, the agricultural colleges, extension services and experiment stations, the state departments of agriculture, the U. S. Department of Agriculture and other organizations—and, finally, the pressure exerted by higher wages, and probably by higher taxes, have led to the adoption of improved agricultural practices more rapidly than in any previous period of history.

Notwithstanding these known facts and the rapidly increasing capacity of the individual worker in farm production, the advocates of farm relief have resolutely refused to recognize the necessity for a movement of farm population into other industries. On the contrary, this natural movement has been the basis of a grievance. They have centered all their efforts upon the development of some artificial method of controlling prices, no matter what the volume of production might be.

Now the idea is to control production (by appeal) with the present, or even an increasing, population on the farms—presumably in partial idleness—to whatever extent is necessary to secure the main purpose of sustaining prices.

In so far as greater diversification of crops is recommended, as in the cotton region, the advice undoubtedly is good, but there is

the further consideration that the northern farmers who have been supplying products to the South will have this additional competition. It is conceivable also that certain farmers may feel that they have not been going as strong on the particular crops as they really are entitled to under the new arrangement, may elect to slightly enlarge their participation just to bring themselves up to a due proportion with their neighbors; moreover, it has been often demonstrated that a moderate reduction of acreage, say 20 per cent, is readily made up in results by a little more fertilizer or care in cultivation. Apparently all of these considerations and perhaps others must be taken into account in calculating the probable result of the Board's recommendations.

Allowing, however, for complete success in the proposed curtailment, it is in order to ask on general principles what is to be gained by industrial progress unless the natural results, in lower costs, lower prices to consumers and either larger aggregate production or a release of labor to other industries, are realized?

The question may be asked also if there is not inconsistency in the policies of the Board, in on the one hand proposing an inducement to production in the form of higher or stabilized prices and on the other hand urging the farmers to reduce production? Which proposal is likely to have the strongest appeal? Here are a few announcements illustrating what the Board is doing:

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It seems to be a fair question to ask how the Board would go about it to secure an increase of production, if an increase instead of a decrease was the end to be attained? What may be expected to be the results from loans avowedly for the expansion of facilities, loans close up to or above the market value of the crops, at rates lower than are available to any other industry or business, and which involve no obligation except as payment can be made out of the security? It seems reasonable to conclude that if such a program does not popularize farming and encourage more people to get into it, farming must be different from any other business.

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Since reference has been made to the Canadian Wheat Pool perhaps it should be further said that this is a voluntary organization controlling something more than one-half the grain production of the western provinces. It has no governmental support, except that in view of the recent drop of prices and the critical situation which would result if the banks were compelled to force the sale of wheat in order to protect their loans, the three provinces have agreed to guarantee a margin of 15 per cent above the bank loans.

The managers of the Canadian pools also recognize the law of supply and demand. In a recent speech Mr. Henry Wise Wood, President of the Alberta Pool, after describing the policies of the organization, said:

> This does not mean that even then we could fix what we considered the right price per bushel for our wheat, in relation to the prices we have to pay for what we must buy, and arbitrarily maintain that price regardless of consequences. One inevitable consequence of such an arbitrary attempt would be the stimulation of production, thus involving the problem of supply and demand. This problem will eventually be more difficult than that of efficient selling. This in turn will involve the subsidiary problem of dealing intelligently wth carry-overs. . . . If we are going to deal intelligently with prices, we will be forced to deal just as intelligently with the regulation of production. . . . In the solution of these problems we may need legislative assistance, but we cannot turn the job over to the government to do for us.

It is noteworthy that wherever attempts to regulate prices are made, whether in rubber, coffee, wheat, cotton, wool, or whatever else it may be, the proposal always is to do so in conformity with the law of supply and demand. Thus the only chance of failure is in a miscalculation of supply and demand, which may happen to anybody. The task of determining the proper prices must be dealt with intelligently, as Mr. Wood says, and manifestly there is a difference between a situation in which the cooperatives deal with their own products to suit themselves and one in which the responsibility of dealing with prices is given to a governmental body operating with public funds.

It is not improbable that a cooperative operating on its own account, and risking capital of its own, will have a keener appreciation of the risks it is taking than a government board which will be under constant pressure to produce satisfactory prices and is certain to be the subject of unending political controversy.

The Essential Condition of Control

The policy of the authorities who have been acting for the wheat-growers of this country and Canada this year has been to hold off and allow the importing countries to first exhaust

the supplies of other exporting countries, expecting then to have command of the situation. The plan has worked well for the other exporting countries, as they have been relieved to a great extent of competition from the United States and Canada while they were marketing their own crops. As a result these two countries now have the short end of the year in which to sell their surplus and are destined to hold whatever the world carry-over may be. Moreover, if the other producing countries shall be encouraged by this policy to increase their production, the two countries will have to be content with a diminishing share of the export business. Conceivably they might be eventually eliminated. Here again Brazil supplies an example, in her policy of holding an umbrella over all other coffee countries while they have marketed their steadily increasing production. This is the essential condition of control where only a part of the producers participate. They must allow the others to market first.

A Confused Situation

There is reason for thinking that the situation under the administration of the Farm Board act is developing into a more complicated problem than was generally contemplated when the act became a law. The common idea then was that the Board would be a new advisory body to study marketing and distribution, with power to more fully finance the cooperative associations and enable them to handle the crops in a more systematic and effective manner. There was some hope that it might be helpful in reducing the spread which has existed between prices received by producers and those paid by consumers. There has been, and is, no substantial objection to a development of the cooperatives to any extent, in the orderly course of natural growth and as their usefulness is demonstrated. However, there is such a thing as overdoing a new development by artificial stimulation. A great cooperative system hardly can be set up as readily as a system of chain stores, but even in the case of the latter, experience has taught that the best results are obtained by gradual expansion. It is inevitable that the plan as it is developing shall be the subject of public discussion and that there shall be honest differences of opinion about some of the policies. There are grave doubts as to the fundamental soundness of certain of the ideas advanced, and misgivings as to where they will lead. The Board itself evidently has apprehensions that the success which it hopes to achieve in establishing more remunerative prices will have the usual effect of stimulating production. There is serious question as to whether the $500,000,000 now pledged to the undertaking will be sufficient to give it a conclusive trial. Senator Brookhart, when the bill was pending, expressed the opinion that the amount should not be less than $2,000,000,000, and Mr. Williams, of the Board, has named larger figures. Certainly, it would be unwise to deliberately break up the existing marketing system before something is ready to take its place. Experience has shown that when governments intervene in the markets confusion invariably occurs, with the result that private capital is largely withdrawn from competing operations. It is easy to understand that this would be so. Individual dealers may have confidence in their ability to estimate the natural conditions affecting prices, but, as a rule, they do not care to take the chances of a market arbitrarily controlled.

Chinese Import Duties on a Gold Basis

The decline in the value of silver has had an adverse effect upon the revenues of China in two ways. In the first place it tends to reduce importations of all kinds, because prices of all foreign goods have risen in terms of silver, and in the second place because the import duties being collected at fixed rates in silver do not go as far in paying the Government's foreign obligations, which are on a gold basis. The foreign debt obligations, for which the customs revenues are pledged, require about $45,000,000 per year and at the present exchange rate these payments would require 20 per cent more revenue in silver than in 1929.

To meet this situation the Government has established a new gold unit of 60.1866 centigrams pure gold, which is the equivalent of 40.008 cents United States money. From February 1 to March 15, inclusive, specific duties on imports will be calculated on the basis of one Haikwan tael as equal to 1.50 of the new unit, which is approximately the average exchange rate in the last three months of 1929. Beginning March 16 the calculation will be 1.75 Haikwan tael to the unit, until another change is announced. Internal revenues do not come under the order, the object being to stabilize its income from customs on a common basis with the foreign payments made therefrom.

The Peking and Tientsin Times, a newspaper printed in England, comments as follows:

> Silver is still the general currency medium throughout the country, and the fall in its value in comparison with gold has not been counteracted by increased silver earnings by the bulk of the population. There has been a steady increase in wages in most of the Treaty Ports, of course, but it has not yet affected the general wage-level in China. The Chinese masses who have become accustomed to the use of foreign piece goods, or cigarettes, or kerosene, will not find their wages increased by twenty per cent, because the value of silver has fallen, and they will simply have to do with smaller quantities of these commodities, or even dispense with their use altogether. The accumulation of silver in China, and the fall in its value are due to a very large extent to the stagnation of the export

trade. Irregular taxation, incessant military operations, deliberately fomented labor troubles, and extortionate transportation costs are causing world markets to look elsewhere than to China for their requirements. And it is a fundamentally unsound economic policy that continues to levy an export duty in addition to all these other obstructions and imposts. It is difficult after years of this kind of thing even to imagine the stimulus to the export trade—and the immense benefits that would accrue therefrom to this country—if all classes of exports could be transported at economic rates, and free of transit and other taxation, to the coast, for shipment abroad without any duty payments.

The attempt to adopt a gold unit for Customs payments only, in a moment of panic must be regarded as a dangerous and dubious experiment. Nor does it appear to be entirely logical. Many of the obligations secured upon the Salt and Railway revenues are also payable in gold. If the gold unit is to be adopted for Customs payments ought it not logically to be applied also to railway receipts, and Salt taxation? Under present conditions this would probably be impracticable.

Imagine the resistance that would arise in Chinese circles to an immediate increase of salt taxation and railway payments by 27 per cent. The Nanking Government evidently assumes that its action in regard to the Customs will only adversely affect foreign interests, but this is likely to prove a short-sighted view. The effects will soon be felt wherever foreign imports of any kind are in general demand, and it would not be surprising to find so serious a falling off in imports from abroad during the coming year as more than to offset the anticipated benefits of the adoption of an artificial gold unit.

It is evident that this is one of the factors in the world trade situation this year, similar in effects upon purchasing power to the decline of sugar, coffee and other commodities.

The British Banking Year

In so far as the banking business reflects general business progress, and it is usually accepted as an accurate index, the year 1929 was one of slight reaction rather than advancement for Great Britain. The London Times of January 24 gives the following composite balance sheet of the "big five" banks (Midland, Lloyds, Barclays, Westminster and National Provincial) which include approximately three-quarters of the bank assets of the country, with corresponding figures for the preceding year end:

LIABILITIES

	Dec. 31, 1929	Dec. 31, 1928
	£	£
Capital paid up	63,901,010	63,901,010
Reserve funds	52,482,541	52,482,541
Current, deposit and other accounts	1,625,579,584	1,666,226,702
Acceptances, endorsements &c.	154,466,346	205,758,415

ASSETS

	£	%*	£	%*
Cash in hand and at Bank of England	210,066,717	12.9	207,679,321	12.5
Balances with, and cheques in course of collection on, other banks	62,763,672	3.9	65,805,248	3.9
Money at call and short notice	124,321,243	7.6	139,228,474	8.4
Bills discounted	196,067,528	12.1	231,062,019	13.9
Investments†	196,546,890	12.1	208,938,245	12.5
Advances	893,775,171	55.0	878,853,810	52.7
Bank premises	32,938,824	2.0	31,444,819	1.9
Aggregate of balance-sheet totals	1,901,798,421	—	1,993,775,144	—

*Percentage of current and deposit accounts.
†Excluding those in affiliated institutions.

Reserve funds, corresponding to surplus with American banks, remain unchanged along with capital. The decline of outstanding acceptances presumably is related to the increase of this class of business in the United States, which was promoted by the policy of the Reserve banks in their desire to protect trade from the depressing influence of the high interest rates which were prevailing upon all paper which had to compete with the stock market demand. Holdings of bills, investments and money at call and short notice were down, while advances were up, which is not as bankers would prefer, and the totals of the balance sheet were considerably less than at the close of 1928. The heavy demands on London by the continental centers and New York doubtless were responsible for these unfavorable figures.

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To meet this situation the Government has established a new gold unit of 60.1866 centigrams pure gold, which is the equivalent of 40.008 cents United States money. From February 1 to March 15, inclusive, specific duties on imports will be calculated on the basis of one Haikwan tael as equal to 1.50 of the new unit, which is approximately the average exchange rate in the last three months of 1929. Beginning March 16 the calculation will be 1.75 Haikwan tael to the unit, until another change is announced. Internal revenues do not come under the order, the object being to stabilize its income from customs on a common basis with the foreign payments made therefrom.

The Peking and Tientsin Times, a newspaper printed in England, comments as follows:

> Silver is still the general currency medium throughout the country, and the fall in its value in comparison with gold has not been counteracted by increased silver earnings by the bulk of the population. There has been a steady increase in wages in most of the Treaty Ports, of course, but it has not yet affected the general wage-level in China. The Chinese masses who have become accustomed to the use of foreign piece goods, or cigarettes, or kerosene, will not find their wages increased by twenty per cent, because the value of silver has fallen, and they will simply have to do with smaller quantities of these commodities, or even dispense with their use altogether. The accumulation of silver in China, and the fall in its value are due to a very large extent to the stagnation of the export

trade. Irregular taxation, incessant military operations, deliberately fomented labor troubles, and extortionate transportation costs are causing world markets to look elsewhere than to China for their requirements. And it is a fundamentally unsound economic policy that continues to levy an export duty in addition to all these other obstructions and imposts. It is difficult after years of this kind of thing even to imagine the stimulus to the export trade—and the immense benefits that would accrue therefrom to this country—if all classes of exports could be transported at economic rates, and free of transit and other taxation, to the coast, for shipment abroad without any duty payments.

The attempt to adopt a gold unit for Customs payments only, in a moment of panic must be regarded as a dangerous and dubious experiment. Nor does it appear to be entirely logical. Many of the obligations secured upon the Salt and Railway revenues are also payable in gold. If the gold unit is to be adopted for Customs payments ought it not logically to be applied also to railway receipts, and Salt taxation? Under present conditions this would probably be impracticable.

Imagine the resistance that would arise in Chinese circles to an immediate increase of salt taxation and railway payments by 27 per cent. The Nanking Government evidently assumes that its action in regard to the Customs will only adversely affect foreign interests, but this is likely to prove a short-sighted view. The effects will soon be felt wherever foreign imports of any kind are in general demand, and it would not be surprising to find so serious a falling off in imports from abroad during the coming year as more than to offset the anticipated benefits of the adoption of an artificial gold unit.

It is evident that this is one of the factors in the world trade situation this year, similar in effects upon purchasing power to the decline of sugar, coffee and other commodities.

The British Banking Year

In so far as the banking business reflects general business progress, and it is usually accepted as an accurate index, the year 1929 was one of slight reaction rather than advancement for Great Britain. The London Times of January 24 gives the following composite balance sheet of the "big five" banks (Midland, Lloyds, Barclays, Westminster and National Provincial) which include approximately three-quarters of the bank assets of the country, with corresponding figures for the preceding year end:

LIABILITIES

	Dec. 31, 1929	Dec. 31, 1928
	£	£
Capital paid up	63,901,010	63,901,010
Reserve funds	52,482,541	52,482,541
Current, deposit and other accounts	1,625,579,584	1,666,226,702
Acceptances, endorsements &c.	154,466,346	205,758,415

ASSETS

	£	%*	£	%*
Cash in hand and at Bank of England	210,066,717	12.9	207,679,321	12.5
Balances with, and cheques in course of collection on, other banks	62,763,672	3.9	65,865,248	3.9
Money at call and short notice	124,321,243	7.6	139,223,474	8.4
Bills discounted	196,067,528	12.1	231,062,019	13.9
Investments†	196,546,890	12.1	208,938,245	12.5
Advances	893,775,171	55.0	878,853,810	52.7
Bank premises	32,938,824	2.0	31,444,819	1.9
Aggregate of balance-sheet totals	1,901,798,421	—	1,993,775,144	—

*Percentage of current and deposit accounts.
†Excluding those in affiliated institutions.

Reserve funds, corresponding to surplus with American banks, remain unchanged along with capital. The decline of outstanding acceptances presumably is related to the increase of this class of business in the United States, which was promoted by the policy of the Reserve banks in their desire to protect trade from the depressing influence of the high interest rates which were prevailing upon all paper which had to compete with the stock market demand. Holdings of bills, investments and money at call and short notice were down, while advances were up, which is not as bankers would prefer, and the totals of the balance sheet were considerably less than at the close of 1928. The heavy demands on London by the continental centers and New York doubtless were responsible for these unfavorable figures.

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